

# **Review of Nine Selected USAID- Funded Business Service Centers in Ukraine:**

## **Reflections on Future Program Considerations**

### **FINAL REPORT**

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## **ABBREVIATIONS AND ACRONYMS**

BSC	Business Service Center
ADE	Agency for the Development of Enterprise
BIZPRO	New USAID/Kiev SME development activity
DAI	Development Alternatives, Inc.
EBRD	European Bank for Reconstruction & Development
CIDA	Canadian International Development Agency
GOU	Government of Ukraine
IAS	International accounting standards
IBTCI	U.S. financial consulting firm working in the region
IFC	International Finance Corporation
JSC	Joint Stock Company
LGU	Local Government Unit
LLC	Limited Liability Company
NBN	NewBizNet (BSCs set up by DAI)
NGO	Non-Government Organizations
RFP	Request for Proposals
SME	Small-and Medium-sized Enterprise
TACIS	Technical Assistance to Commonwealth of Independent States (EU Technical Assistance Program)
UAH	Ukrainian currency (hryvnia)

## EXECUTIVE SUMMARY

USAID/Kiev's small and medium enterprise<sup>1</sup> (SME) development activities started in 1994 with efforts aimed at developing the business skills of local entrepreneurs. This has included the creation and development of 15 business service centers (BSCs) over the past four years to transfer skills and information on operating a business in a market economy.

The purpose of this assessment was to analyze the network of USAID-financed BSCs in Ukraine under the Newbiznet (NBN) and International Finance Corporation (IFC) projects and draw lessons learned on the process and the results of the creation and development of the BSC network. This assessment reviewed the overall financial, technical, and managerial sustainability of nine BSCs in Ukraine, five of which are managed by the IFC and four managed by NBN.

The main findings are as follows:

**Viability of the BSCs Reviewed.** To achieve the goal of becoming a financially viable business means that services are provided to clients that can afford to pay for the services, meaning the larger end of the SME market. Since small and micro-enterprises frequently lack the financial resources to pay for services, and many are women owned or women operated, a significant percentage of women entrepreneurs also are at risk of being underserved by the BSCs.

The four NBN BSCs are financially viable now and should continue to be viable. This is not a surprise since they were in operation prior to USAID support. On the other hand, the five IFC BSCs are generally at a lower stage of development in comparison since they were created from scratch. The first generation of IFC BSCs currently are operating without donor support but the newest generation are not currently sustainable and are not likely to be sustainable by September 2000 when USAID assistance is scheduled to end.

**Trade-Off between Sustainability of the BSCs and Serving the SME Target Groups.** The consequences of the BSCs focusing primarily on financial sustainability are that the microenterprises, smaller SMEs, and other typically disadvantaged sectors are not the primary foci of the BSCs. If USAID wants the BSCs to continue to target support to microenterprises, unemployed, and women, it can be done only under some form of targeted subsidized program.

**Service Mix.** The mix of services provided by each BSC is the result of the complex interaction of a number of factors: the composition of the SME sector within the service area; the skills and talents of the management and staff of the center; the relationship with

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<sup>1</sup> Although the definition of SME varies between the centers reviewed in this assessment, for purposes of clarity and consistency, the definition of SME used herein follows the one used in a recent survey of business in Ukraine (MSI 1999). Small enterprises are defined as having 0-50 employees while medium enterprises have 51-250. Any firm with more than 250 employees is considered a large enterprise.

the local government; donor interests supported by funding; and the market demand of SME clients.

**Building a Stronger Business Support Network.** The long-term viability of BSCs probably depends on support from a strong network. The BSCs presently have some networking within each of the two groups of BSCs, with IFC providing a more structured network. What is missing is substantial cooperation between the IFC BSCs and the NBN BSCs.

Some of the BSCs see associations as competitors, given that many associations provide similar services and some have strong political affiliations. It is recommended that the extent of further support to business associations be reviewed under the BIZPRO<sup>2</sup> activity.

**Effects of the Regulatory Environment on the BSCs.** Although the unstable legal system has created difficulties for some businesses, most of the BSCs felt that the regulatory environment was not a significant factor in the operation of the BSCs, even though it appeared to be a major constraint for their clients. A recent survey of business in Ukraine found that the current tax system and lack of access to capital were the biggest challenges facing SMEs (MSI 1999).

**Addressing Gender Issues.** The BSCs are generally neutral with respect to gender considerations. Data on the gender distribution of BSC clients reveal that although women comprise 35% of clients receiving training services, they comprise a significantly lower percentage of clients receiving non-training services such as consulting. The BSCs suggested that this is a result of women being underrepresented in senior management positions. On the other hand, for training programs such as accounting, a profession in which women typically comprise a large percentage, they comprise a majority of the clients served.

**Linkages between BSCs and other USAID Programs.** USAID and other donors used the BSCs to provide specified services to meet development objectives. For some BSCs this has become a significant source of revenue. Also, a number of the BSCs mentioned that they were aware of other USAID activities offering training that BSCs could benefit from. The Mission should make a concerted effort to expand cooperation across the various private sector programs in developing the business service provider industry in Ukraine. BIZPRO has a buy-in component in its activity design that could make cooperation easier for related activities.

**Pilot Voucher and Work Order Programs.** The voucher program, with some adjustments, is an effective mechanism to target those groups that are currently underserved by BSCs: microenterprises, smaller SMEs, and women-owned businesses.

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<sup>2</sup> BIZPRO, a new USAID/Kiev activity, will consolidate a number of interventions in its SME development portfolio in order to provide for greater synergies among a number of projects. These interventions seek to improve SME access to market-driven business skills and information; create a legal, regulatory, and political environment more conducive to SME development; and enhance SME access to financial resources.

The pilot voucher program was limited to training for individuals. However, consideration should be given to using similar approaches for other business information and consulting services.

Like the voucher program, the work order program also was implemented on a pilot basis. Work orders are targeted short-term intervention tools that allow USAID to engage a BSC, for a fee, to provide a specific service to targeted recipients. The pilot work orders were specific in terms of inputs and deliverables. In the future this program should be more results driven using performance based programming to allow for greater innovation by the implementers.

**Outline of the Report.** The assessment is organized as follows. Firstly, an Executive Summary is provided. Secondly, a brief discussion of USAID/Kiev's work with BSCs and the methodology employed in this assessment is given. Thirdly, an analysis is provided on the viability of each of the nine BSCs reviewed. The fourth section provides responses to the 14 questions posed in the scope of work (SOW) for this assessment as well as the main conclusions and recommendations. The last section briefly discusses crosscutting issues such as microfinance, the rural and agricultural sector, and the NBN Hotlines.

## **BACKGROUND AND METHODOLOGY**

USAID/Kiev's SME development activities have included a program to create and develop 15 business service centers (BSCs) to transfer skills and information on operating a business in a market economy to SMEs in Ukraine and Moldova. During the four years of its existence, the program has succeeded in reaching over 30,000 SME clients in Ukraine, and approximately 5,000 in Moldova. Over 35% of the clients receiving training were women. In January 1999, USAID/Kiev ended direct operational support to the four original BSCs funded under the Newbiznet (NBN) project. Direct operational support for the remaining five BSCs ended in September 1999. However, these centers continued to receive financial benefits from a new, experimental system of work orders and vouchers. The current phase of USAID's business skill development assistance including NBN and International Finance Corporation (IFC) business center development activities will end in September 2000.

The purpose of this assessment is to analyze the network of USAID-financed BSCs in Ukraine under the NBN and IFC projects and draw lessons learned on the process and the results of the creation and development of the BSC network. The analyses of NBN and IFC models compare two approaches by business service providers driven by a common goal of achieving financial viability and a common strategy of building fee paying markets for services provided.

By looking at each approach, the review team has drawn lessons on the strengths and weaknesses of each model in creating, maintaining, and building markets for a range of low- and high-end business services valued by clients. These lessons can then be used by USAID and its implementing partners to inform broader strategic issues on business development sector programs in Ukraine and in other countries undergoing a similar economic transition.

The assessment reviews the overall financial, technical, and managerial sustainability of the BSCs in Ukraine. The team reviewed nine BSCs, five of which were managed by the IFC and four managed by NBN. The IFC centers were located in Chernigiv, Chernivtsi, Dnipropetrovsk, Vinnitsa, and Zhytomir. The NBN centers were located in Donetsk, Kharkiv, Lviv, and Rivne. Roughly half of the BSCs reviewed were part of the original group receiving USAID assistance and half were part of the new group receiving assistance over the past two years.

The team conducted interviews of project management at NBN and IFC coordination offices, management and support staff of BSCs, selected clients of BSCs, local business associations, and USAID.

## VIABILITY OF THE NINE BSCS REVIEWED

### Four NBN BSCs

Donetsk: This BSC has been in operation as a for-profit business since 1990. The center was initially involved with software development and had 70 employees, but shifted its emphasis to business consulting services. The center only joined the NBN program in 1998 and it currently has 23 full-time staff members. At the time it joined the NBN activity, it had a strong book-keeping and accounting business but through NBN support they increased staff size, moved to improved premises, and expanded into training services delivery. It is the only BSC that derives the lion's share of its revenue from the consulting services (rather than training). The center's income originates from accounting (30%), training (25%), legal services (25%), third-party evaluation of barter transactions (15%), and auditing (5%). Approximately ninety percent of the center's clients are SMEs. The BSC has been a sustainable business for a decade and with sound management, it should be a viable long-term business.

Kharkiv: This BSC is a JSC and was established in 1995 as an outgrowth of the Society of Industrial Engineers. For over a year, since NBN assistance stopped in January 1999, they have been financially self-sustaining. This BSC is a family dominated business that derives much of its strength from its traditional linkages to the scientific community, local government relationships, and the technical skills of its director. The BSC has broad technical capacities and has a wide variety of revenue sources that shift as market opportunities arise. While business information services, provided on CD-ROM as well as hard copy, have been a major strength, their revenue sources shift rapidly, from the power industry to a business information journal to training, etc. Another major source of revenue is the rental income derived from tenants, including other USAID-funded projects such as The Alliance, ACDI/VOCA, Western NIS Enterprise Fund, and Chemonics. The BSC also derives income from several other donor-financed activities. The prospects for long-term financial viability appear good.

Lviv: In 1990 the BSC was part of the Lviv Institute of Management (LIM). In 1995, it was established as a separate, non-profit BSC. The overall goal is to support SME development and to improve the business environment. However, it is one of the few BSCs that stated its goals as both social and commercial. The BSC has a full time staff of 15 and 30 to 40 active part-time consultants. It is entrepreneurial in obtaining commercial work as well as attracting donor-funded activities. About half of its costs are covered by donor-funded activities and half by commercial activities. The BSC participated in both the voucher and work order programs. It has also been covering its costs of operation since January 1999 and there is every indication that it can continue to be a self-sustaining operation.

The character of this BSC is dominated by its origins as a spin-off from LIM. The original Director (now vice-Mayor) and current Director speak to the goals of the BSC as closely tied to the goals of the local administration, LIM, and its role in



leading the development activities in the region. It has the third largest staff of the NBN BSCs but the largest contingent of regular part-time consultants that come from LIM and other local institutions. It provides a broad range of business services, implements numerous donor-supported activities, and holds conferences.

Rivne: This BSC was initially supported by the Eurasia Foundation in 1997. At that time it provided a lot of services free of charge. In 1998, the BSC began its cooperation with NBN. Since September 1999 it has been operating independently and is registered as a for-profit, although it also has an arm that is registered as a public organization for tax purposes. It have a full-time staff of 12, with 10-15 part-time consultants providing services as needed. This BSC is the fourth largest BSC and derives its revenues from a broad range of services. Consulting is the most profitable but training is the greatest volume and provides the steadiest stream of income. The director is clear on his goal to be profitable in the provision of business services.

The overall goal of the BSC is stated as promoting and supporting SME development. However, it only takes on projects that are profitable. Some social pricing practices are used for microenterprises and for training programs working with the unemployed. The Director is primarily entrepreneurial in his management of the BSC's activities and attempts to maintain a focus on SMEs, but not at the expense of profitability.

This BSC also expressed an interest in expanding its services to the rural communities under the Eurasia Foundation Program, "Small Grants to Small Villages". Despite the discontinuation of the Eurasia program, they are continuing to assist in the development of the five regional BSCs associated with this activity. Prospects for this BSC to be sustainable look promising.

### **Conclusions and Recommendations for the NBN BSCs**

One characteristic that the NBN BSCs have in common is that they were already in operation before the NBN project intervention and they have developed substantially during the tenure of the program. Examples of this development are that the staff has been strengthened, premises have been improved and expanded, computer and automation capacity has been increased, systems for internal management have been improved, substantial resources to provide services to businesses have been secured, and capacity to deliver business services has been expanded. Additionally, extensive on-the-job training has been provided through contact with Alliance volunteer executives.

Each of the four NBN BSCs has larger staffs, stronger linkages to local part-time consulting resources, continuity of business and/or community linkages, and a core fallback position of its original business goals in comparison to the IFC centers. It is equally true that each BSC has unique characteristics and strengths.

The four NBN BSCs are financially viable now and should continue to be viable in the long term provided prudent management practices are continued. All have developed to the point that they do not need direct subsidies from donors or direct institutional support. Three of the four BSCs have demonstrated they are effective implementers of USAID and other donor-supported activities and derive substantial income from these activities.

The NBN BSCs are well positioned to participate in the next generation of USAID support envisioned in BIZPRO. The voucher and work-order mechanisms are appropriate ways to channel the efforts of these BSCs to continue to provide services to SMEs, new start-ups, and the most vulnerable parts of the business community. The subsidies in these delivery approaches are directed at the clients, and the BSCs are operating in a market environment that should help continue their growth as effective business service providers.

#### Five IFC BSCs

Chernigiv: The BSC was one of the last groups to be established in the IFC program and has been in operation for less than a year. It opened in April 1999 and has been going through the start-up and staff development phase operation. Much of the focus locally has been on advertising and promoting demand for the services the BSC can provide. The target is SMEs and on becoming profitable as soon as possible. They have undertaken a number of training courses, prepared some business plans, and completed a number of marketing studies. The BSC is covering between 7% and 14% of its costs but developing clients steadily. If all goes well, it is reasonable to assume they might be at the break-even point in 18 to 24 months. Currently, USAID support will end in September 2000.

Chernivtsi: The BSC opened in May 1999 and is currently about 4% financially viable, according to IFC estimates. There is a full-time staff of six including the Director, Office Manager, three consultants, and a U.S. Peace Corps volunteer. The staff is talented and focused on developing the client base that will make it a commercially sustainable operation. The BSC is aggressively marketing its services and pro-active in searching for clients. If all goes well, it could reach the break-even point in 18 to 24 months. Current direct USAID support will also end in September 2000.

Dnipropetrovsk: This BSC began in the second half of 1996. The direct subsidy from USAID ended in mid-year 1998. It has been financially self-sustaining since that time. It has a full-time staff of four and four part-time staff members. This BSC maintains close ties to certain community leaders and appears to align its goals with the goals of this local community leadership.

The director stated that his objective is to move toward providing services to the industries that can and will pay for services. The IFC reports that this BSC is now

covering its costs. The BSC was the only one that stated it did not place a high value on the IFC BSC network. It also said it needs more in-depth assistance at this point of their evolution as a business service provider. With continued prudent management and development this BSC can be sustainable in the long term.

Vinnitsa: This BSC was in the second group of BSCs developed by IFC (but the first group of BSCs supported by USAID). The BSC opened in 1997 and is now 100% self-financing, based mainly on training revenues (92% of total). There is a total full-time staff of ten, including the director, office manager, four consultants/trainers, two finance specialists, and two assistants. Recently there was a change in directors and the BSC is still in transition to the new management. (Most of the staff was not in the office during our visit because they were attending an IFC training activity. Therefore it was difficult for the team to assess other characteristics of this BSC based on the visit.)

With a full time staff of 10, this is the largest of the five IFC BSCs. According to the IFC it is covering its costs with operating revenues, 92% of which are derived from training. It is working on expanding consulting services since it is the more profitable end of the business. The BSC staff has been together from the start and confident about the future profitable business prospects of the BSC. Another complication was that TACIS tried to create a BSC here as well and co-locate it with the IFC BSC. This did not work out and has resulted in a separate TACIS BSC at a different location.

Zhytomir: The BSC opened in May 1997 and is financially independent of direct USAID financial support. Following the end of USAID support it restructured and reduced costs of operation and is currently able to cover all of its costs. Revenues are growing and it forecasts that this year will be better than last year. Its vision is to maintain its client base, raise the quality of service, and expand the range and number of profitable clients. There is a core staff of five full-time consultants that is augmented with short-term expertise from various sources as needs arise.

This BSC has a clear goal to become commercially viable as a business service provider. It has strength in providing training on International Accounting Standards (IAS) and plans to capitalize on this in 2000. It is concentrating on IAS training and conversion for the immediate term based on the fact that it has three of the four qualified professionals in this field in the region. It plans to expand into IAS conversion next, set up centralized bookkeeping for its clients, and move on to providing marketing services. The plan is for a measured orderly expansion of its business. The BSC appears to have excellent prospects for commercial sustainability.

### **Conclusions and Recommendations for IFC/USAID BSCs**

The five IFC business centers are generally at a lower stage of development as private businesses than the NBN BSCs are. The IFC created the BSCs they supported from scratch.

Therefore one common characteristic among the IFC BSCs is that they are all new organizations. The IFC selected sites where there weren't any BSCs, conducted industry surveys, and obtained local government support as pre-conditions for recruiting staff, before setting up operations.

Since the IFC BSCs were all created from the ground up by, it is not particularly surprising that they are less developed than the NBN BSCs. The average number of full time employees of five people at the IFC BSCs, with the exception of Vinnitsa, is significantly less than half of the average of 20 full time staff at NBN BSCs. The support network provided by the IFC is characterized as delivering a standard set of skills and approaches that will foster the development of full service BSCs. With the exception of Dnipropetrovsk, all the IFC BSCs were extremely complimentary of the IFC approach to business service provision, the value of the technical assistance, materials, training, and workshops provided by other IFC BSCs. The Dnipropetrovsk BSC felt they needed more in-depth materials and training at this time than IFC is providing.

For the older IFC BSCs to continue to develop into full service sustainable BSCs they will need the continued support and development of something like the IFC network. The long-term viability of these BSCs probably still depends on this type of support. While there is no particular need for this to be housed within IFC, it should be recognized that the NBN network of BSCs and the IFC BSCs appear to have different cultures that may be hard to bridge. USAID should review this issue with the IFC and their centers.

The newest generation of IFC BSCs is not sustainable today and probably will not be in September 2000, when direct USAID assistance is scheduled to end. If they are to be sustainable (viable financially), USAID and IFC need to objectively assess their needs and determine the best way to support them to the point of becoming financially viable. The review team feels this could take an additional six to 12 months. It is possible that this could be done through the work order system, while at the same time incorporating them more directly into the NBN network. In addressing this issue, it is the opinion of the review team that these BSCs have had a good beginning, are developing significant capacities to deliver services, and already have developed a growing client base. However, they need more time to reach a financially sustainable point of evolution.

The comments of the IFC BSCs on the IFC network and support system make it appear to stand out as a strong model of support and development for these new BSCs. The review team recommends that this experience be reviewed to determine which aspects of it can be incorporated into the overall network for BSCs.

## COMMENTS ON THE QUESTIONS IN THE SOW

1. **Are there specific elements of the IFC and NBN models, systems, structures, staffing, and goal orientation -- that would allow for more effective use of donor interventions?**
2. **Can donor assistance be effectively used to assist existing providers better serve their clients?**

### **Conclusions and Recommendations on Questions #1 and #2**

Although the NBN BSCs are more financially viable at this point than the IFC BSCs, all BSCs reviewed may require further donor support in the form of technical rather than financial assistance. A recent survey of the consulting industry in Ukraine revealed that consulting firms would prefer donor support in developing new services and training in consulting skills over direct financial support (ADE 1999). In the case of the NBN BSCs, USAID already has two mechanisms—the voucher and work order programs—in place that have the potential to allow USAID to deliver targeted financial support to BSCs in an efficient and cost-effective manner. For a more detailed discussion of the voucher and work order programs, see the conclusions and recommendations section of the response to question #14. For a more in-depth analysis of the IFC and NBN models, see the conclusions and recommendations in the third section of the report on the viability of the BSCs as well as the table illustrated in response to question #4.

3. **Is there an opportunity to develop a stronger business support network that can encourage greater participation from all businesses in the formal business economy? For example, some of the BSC were successful in establishing long-term relationships with the local authorities and community members that led to increased local support to SMEs operating in the formal economy.**

The answer to this question is yes. Opportunities do exist to develop stronger business support networks by building upon or replicating ongoing systems presently being practiced in Ukraine. In introducing networks, common sense needs to prevail because some will work in one area while they will not succeed in another area. Some of the extenuating conditions are provided in the examples that follow. The team observed a number of networks presently being practiced by BSCs. These networks of business relationships vary by community. In some cases, especially for the IFC established BSCs, there is a clearly established line of communication ongoing between the BSCs themselves. They seek ways to strengthen a particular BSC or seek expertise that does not exist internally at their particular BSC but is needed to complete a specific task. Most importantly, there are the networks established within the community between the BSC, other businesses, and local government officials.

The motivation for a network relationship can best be identified and analyzed by looking at examples of some interactions. One of the primary goals of the U.S. and European interventions in Ukraine is to broaden the number of private formal businesses operating in-country in order to accelerate economic development. One logical means to meet this goal is

to develop cooperation between the business community and local government officials. In Lviv this appears to be taking place.

The Lviv BSC gave a number of examples where they have worked closely with the government, such as assisting in the setting up of seminars and conferences on cross-border exploration of mutual business interests with Poland. The former director of the BSC has been very active in local government activities for a number of years.

On the other hand, when we look at the Kharkiv case where there are visible strong working relationships between the director of the BSC and the Mayor and Oblast officials, we find no real identifiable positive change in the Kharkiv business environment. The lack of tangible major business development in this region is difficult to understand considering the special emphasis placed on this area by the U.S. government through the Kharkiv Initiative. This is an initiative intended to provide extraordinary levels of technical assistance to support the political and economic development to this area and the BSC should be playing a key role in this movement. Looking at the extensive business support work of the BSC, one sees very little tangible progress on new business development in Kharkiv spurred by BSC support even though this BSC is strong in marketing techniques.

In both the Lviv and Kharkiv cases it is implicit, by examining each BSC's goals, that one reason they are undertaking this private-public network is to increase their financial viability. On Lviv's part, where they have a stronger non-profit motivation goal, they still have a solid commitment towards achieving financial viability while meeting their social goals as well. In both cases, a major driving force is business development of their BSCs, and one measurement of success is financial viability.

These two cases demonstrate that a private-public network can be a positive factor, but it also shows that the agenda of public officials can easily distort, or negate, efforts of private business when a receptive private sector business environment does not materialize. In this case where there is a lack of private sector support, a very prevalent condition in Ukraine, another approach would be to forego the establishment of a close working relationship with public officials and conduct business on strictly a business-to-business basis such as practiced in Donetsk.

One only needs to look at the Donetsk (Intron) BSC's technique of business development to understand that close local government interaction is not always needed to succeed in supporting business development. In this case, the center took a clear position that their business activities are separate from government activities. They look at their role of business support as strictly a business venture. The director maintains cordial relationships with government officials but contacts with government officials are not crucial to his work. As an astute businessperson will do, he maintains contact with public officials on a personal basis. In this case he expects nothing free from the government nor does he expect to provide them with free services. Both, in a business fashion, must pay for whatever service they receive from one another. The director gave an example of the BSC's methodology of business

development. He cited one case where a client came in with an idea of a type of business he wanted to start. However, this businessman only had a general idea of what was needed and not much understanding of a market economy. He did not have the money or a partner or a full understanding of what goes into business development. Taking this as a starting point, Intron set out to do an initial market study to find a potential partner and to assist in locating financial support. Once the client accepted this step and paid for the services, the BSC then helped develop a business plan. Once the plan was accepted and paid for, Intron set about training the owner in business management while helping recruit staff and train them in their respective roles. This was followed with consulting services over a period of time on a broad range of issues until the firm grew to the point it established its own bookkeeping department and now the BSC stays involved by providing external auditing services. A full-service business program was offered, providing a broad range of consulting services, with services paid for throughout this period. There was no need to directly involve the local government officials except for normal tasks such as registration, licensing, and other related activities.

These three examples deal with larger cities and larger BSCs. To complete this picture it is necessary to look at how one of the smaller BSCs, now only in its infancy, has been able to network with the government and the local business community. Chernivtsi is one of the newest BSCs but it is moving ahead towards its goal of financial self-sufficiency in a well-planned fashion. They established their BSC by completing the usual development plan and then the IFC trained the staff in all three focus areas (training, information services, and consulting). The BSC immediately recognized that to become financially independent in the very short time allotted to them, they needed to seek out clients immediately. To do this they established a business club that meets on the premises of the BSC every week for a couple of hours. Local government officials, tax officials, and private businesses are invited to attend in order to discuss issues of mutual interest. This not only created a network of potential clients, but at the same time it gave the BSC an opportunity to demonstrate its professionalism. It also gave them an opportunity to unobtrusively introduce their services to members attending these club meetings. Again, they operate in a relatively progressive government atmosphere where this type of networking appears to work well. Care should be exercised in introducing this line of attack in areas that exhibit a resistance to market change, but this is an approach that could work in all areas if caution is exercised so as not to be viewed as a threat to the ruling establishment.

Lastly, the strong ties that the donors hoped would develop between BSCs and formal business associations have not occurred. During this trip the review team visited more than 10 associations and attended a conference with another 10-15 associations. It was found that some associations represent their business clients well but in other cases, it appeared that the association was nothing more than a front for political, special, or individual interests. Furthermore, none of the BSCs visited belong to any business association, partly because they consider them too political and also because some view them as competitors and not as support organizations. USAID has put considerable effort and financing into developing the concept of associations, even using some for project implementation. There is a need to revisit the objectives and implementation procedures for this endeavor.

### **Conclusion and Recommendations on Question # 3**

**Conclusion:** There is an opportunity to develop stronger business support networks. The BSCs presently have some networking with each other, with IFC providing the most structured network. NBN maintains a loose intra-network that promotes a feeling of belonging where they can consult with one another as needed. What is missing is substantial cooperation between the IFC BSCs and the NBN BSCs. Furthermore, there is no structure in place to bring in non-USAID sponsored BSCs. It would be beneficial for all BSCs to cooperate with one another. True, there are parts of their programs that are proprietary and need to be maintained confidential, but there are generic problems that they can solve better as a group. Lastly, the networking with local government units (LGUs) is varied and loosely defined.

**Recommendation A:** BIZPRO gives the opportunity to bring all BSCs together without reference to NBN, IFC, or non-USAID supported BSCs. There is a need to study more ways this can be done than could be completed during this short study period, but one suggestion is to use the work order mechanism to put on seminars or roundtables with subjects of general interest so those most interested could come together. The dynamics of being together, exchanging business cards, and developing friendships should result in the start of improved cooperation. The development of an Electronic Bulletin Board where they can readily share information, for example, could be a topic of discussion. Several BSCs expressed the desire to obtain more substantial training or attending seminars of world-renowned speakers. This, too, should be a popular seminar topic.

**Recommendation B.** In most instances it is of value to include local government officials in general business planning in an effort to provide a supportive business climate. USAID should explore the possibility of using the Business Club approach that the Chernivtsi BSC uses to bring together entrepreneurs, local government officials, tax officials, and BSC staff at scheduled times.

**Recommendation C.** It is recommended that the extent of further support to business associations be reviewed under the BIZPRO activity, possibly through the use of work orders contracted with one or more service providers. The associations may have a positive role to play in countrywide business development, but they also have the potential of distorting the business support market. Care should be exercised to design programs that only use and strengthen associations that represent private business and are not set up solely for individual or political gains.

**4. What are the similarities and differences in the service mix, client mix (including sex-desegregated data), systems, staffing, structure and management culture that were adopted by the IFC and DAI models in the process of the establishment/development of the BSCs?**



The IFC and NBN BSCs are similar in that they typically provide three core services—training, consulting, and information. The provision of general information services appears to be of the highest demand throughout the IFC BSCs while for the NBN BSCs training is in highest demand (see the following table). It should be noted that some NBN BSCs have generated significant revenues from non-training services. For example, between 1995 and 1999, 52% of the Kharkiv BSC's revenues were generated from its information services even though 50% of its clientele accessed training services. The reason behind this is that the information services provided by the Kharkiv BSC are more profitable than training services. In 1998, the EBRD paid the Kharkiv BSC approximately \$80,000 USD to produce a CD-ROM highlighting investment opportunities. In addition to the EBRD, the Kharkiv BSC has also produced a number of CD-ROMS for other clients.

The client mix varies throughout the BSCs but the review team was told repeatedly that the BSCs can not afford to provide services for free or at reduced costs and the BSCs must therefore provide services to those enterprises that can pay. In most cases, such enterprises are medium to large in size.

In terms of staff size, the NBN BSCs are much larger overall in comparison to the IFC BSCs. The NBN BSCs have been in operation longer, for the most part, and have had more time to grow and develop as a provider of business development services than have the IFC BSCs.

**Table for Question #4.**

	NBN or IFC	Main Service	Client Mix	Staff Size	Structure	Special Features
<b>Zhytomir</b>	IFC	49% of clients use information services and business partner searches	larger enterprises in the range of 300-400 employees	5 full-time, some part-time as needed	LLC with a non-profit subsidiary	3 of 4 IAS-trained consultants in Zhytomir work at this BSC
<b>Rivne</b>	NBN	79% of clients use training	varies from 20-200 employees	12 full-time, 10-15 part-time	for-profit with a non-profit subsidiary	partners with local employment agency to provide services to jobless
<b>Lviv</b>	NBN	65% of clients use training	larger enterprises	15 full-time, 30-40 part-time	non-profit	established a recruitment agency that maintains a database of job searchers
<b>Chernivtsi</b>	IFC	77% of clients use general information services	medium enterprises in range of 200-300 employees	6-7 full-time, some part-time as needed	non-profit with a for-profit subsidiary	holds weekly business club meetings; local administration provides rent-free space
<b>Vinnitsa</b>	IFC	91% of clients use general information services	smaller enterprises	10 full-time, some part-time as needed	for-profit	BSC director is head of local advertising club
<b>Chernigiv</b>	IFC	86% of clients use general information services	smaller enterprises in range of 25-50 employees	6 full-time, some part-time as needed	for-profit with a non-profit subsidiary	holds roundtable forums and has a business club
<b>Donetsk</b>	NBN	44% of clients use consulting services	smaller enterprises	23 full-time, some part-time as needed	for-profit	initially involved in software development before becoming a BSC
<b>Dnipropetrovsk</b>	IFC	81% of clients use general information services	mostly SMEs but some large enterprises (in excess of 600 employees)	4 full-time, some part-time as needed	for-profit	close affiliation with local administration
<b>Kharkiv</b>	NBN	50% of clients use training	full range of clients	31 full-time, 20 part-time	JSC with a non-profit component	gains rents from provision of office space to other USAID-funded projects

Most of the BSCs have some combination of a for-profit structure with a non-profit subsidiary or vice versa. Such a combination is often necessary for tax purposes.

Finally, regarding management culture, the IFC BSCs have placed more emphasis than the NBN BSCs on surveying the market at the outset of BSC operations to determine what services potential clients need. The IFC BSCs have also developed a stronger network amongst themselves in terms of sharing information and experiences as well as the provision of training. NBN has a more integrated approach than does IFC in addressing gender issues. See the answer to question #12 for further information on NBN's work targeting women entrepreneurs. For next steps, also see the conclusions and recommendations in the third section of the report on viability of the BSCs.

**5. What is the current status of each center in terms of achieving financial viability (e.g., revenues greater than costs less direct and indirect subsidies)? What are the trends each center exhibits in terms of the likelihood and the timeframe for achieving financial viability?**

Refer to the third section of the report on viability of the BSCs for Conclusions and Recommendations.

**6. How did DAI and IFC interventions -- priorities, subsidies, incentives, and mandates -- affect the operations and goal achievement of the centers? What were the positive/negative impacts of these interventions?**

This question has been addressed in the third section of the report on viability of the BSCs.

**7. How does the regulatory environment -- taxes, licensing, legal status -- affect the centers?**

The regulatory environment did not seem to be of much concern to the BSCs although it is a major problem for their clients. The BSCs believe that their business support was constructive in preparing their client's registration, bookkeeping and tax obligations so that this part of the operation was transparent. The general concern was not the amount of the tax, but the constantly changing laws effecting their operations and most importantly, the arbitrariness of the tax collection authorities.

There is no recommendation for this question.

**8. How does the market environment (e.g., size, dynamics, and culture) affect the operation of the centers and their decision to target certain markets and services?**

The size of the client's business, and its ability to pay for services, has a significant affect upon the operation of the BSC and its decision to target certain markets. In all cases, the BSCs recognize that they need to cover all of their expenses, including salaries, once USAID

financial assistance ends. In some cases that has happened and in trying to meet their goal of being financially self-sufficient, they immediately targeted those clients that can pay. The larger BSCs, like Lviv, can support a substantially large number of social projects but even they must be assured of a sufficient number of paying clients to meet all expenses.

It is clear that microenterprises, unemployed women, and other socially disadvantaged groups that USAID would like to target, will not be targeted by a BSC unless it is subsidized or has an overriding public relations benefit.

The larger BSCs, by the very fact that they maintain a larger sized staff, have the expertise to assist larger clients. However, even that scenario has its limits since the prevailing view is that the large restructured companies either have in-house capability or they do not see the BSCs as professionally qualified enough to be of value. This leaves the targeted client in the small to medium business group (roughly those firms with 20 to several hundred employees).

### **Conclusion and Recommendations on Question # 8**

The main goal of each BSC visited was to become financially viable. Consequently, the only clients that they are willing to target are those that can pay. This rules out microenterprises, the unemployed, and new entrants to the labor market. The large enterprises that have in-house capability or greater financial capacity are typically not interested in working with the BSCs.

If USAID wants the BSCs to support microenterprises, unemployed, women, and disadvantaged businesses, it can only be done under some form of subsidized program. If BIZPRO is used, the voucher and work order mechanisms are appropriate mechanisms. It should be recognized that by doing so, the program could become distorted by placing more emphasis on these non-paying elements. Consequently, the BSCs could develop an unsustainable body of expertise aimed at this lower level of client. In the end, when subsidies discontinue as they surely will, the BSC could be caught with the wrong mix of services. This is a judgement call, requiring very careful and thoughtful implementation planning, of whether the goal is to develop microenterprises or strengthen the consulting industry, in these initial years of the business sector development, or a mix of the two. Discussion under the following question #9 expands on this subject.

#### **9. Are there any trade-offs between the social and commercial goals of the centers and their choice of services offered clients served and business strategies (e.g. responding to market demand versus creating new demand for business support services)?**

Yes, there are some trade-offs between the social and commercial goals of the BSCs but these trade-offs do not necessarily affect the choice of services offered to clients. Both the IFC and NBN BSCs were established to provide an array of business development services to the SME sector. While these BSCs have generally served the SME sector, the small- and

micro-enterprise sector is usually under served. The reason is that many of these small- and micro-enterprises can not afford to pay for the services provided by the BSCs. Although most of the BSCs assessed in this report have provided services to these businesses for free or at reduced costs in the past, the commercial viability of the BSCs will be at stake if they continue to do so. Hence, it is the *modus operandi* of most BSCs to provide services only to those enterprises and individual entrepreneurs who can pay for the services. Exceptions are made when donors or the Government supports specific targeted training, conferences or other activities. Many of the BSC directors told the review team that becoming financially self-sustainable was their number one objective. In order to achieve this objective, the BSCs can not afford to provide services for free or at a reduced level.

In terms of the commercial goals of the BSCs, providing more consulting or information-related services, such as the production of CD-ROMs by the Kharkiv BSC, is more profitable than providing training. However, training still remains, at least for the NBN BSCs, the service that is in highest demand. Although the BSCs aim to achieve financial viability, it is unlikely they will stop providing those services (i.e., training or general information) which are highest in demand even though they may not be the most profitable services.

### **Conclusions and Recommendations on Question #9**

The voucher program may be an effective mechanism to target those enterprises that can not usually afford the services being offered by the BSCs. The key to serving the small- and micro-enterprise sector through the voucher program, for instance requires some revision of the selection process for voucher participants. For further discussion of the voucher program, see the conclusions and recommendations section of the response to question #14.

#### **10. Are there existing links -- similar clients or related services -- between USAID assisted business service centers and BSCs established without donor assistance?**

The intensive schedule of the Review Team did not permit time to review this question in depth.

There were several references in our interviews to competition among business service providers throughout Ukraine. There were references to a number of BSCs that were started by other donors such as TACIS and CIDA that went out of business as soon as their assistance ended. Based on comments in the interviews, the growing body of service providers is concentrated in training and accounting or bookkeeping services. Most of the BSCs stated that they do not have any real competition in the provision of comprehensive business support services as envisioned in the two USAID supported programs.

The NBN BSCs and the IFC BSCs identify, to some extent, with the other BSCs that were supported in their respective programs. However, this identity does not transcend the BSC membership of the two groups. Even within each group there is a marked tendency to view other BSCs as competition or at least potential competition. Nevertheless, there has been

considerable cooperation and collaboration within the IFC and NBN networks. Notable examples include calling upon specific training and analytical expertise from other BSCs. This seems to be more typical for the IFC network than for the NBN network. The IFC has also used expertise from older IFC BSCs to train and coach the staffs of the newer BSCs.

### **Conclusion and Recommendations on Question # 10**

The Review Team recommends that BIZPRO include activities that will bring these two groups together in constructive ways. The collective experience of the USAID BSCs should be shared to the benefit of all of them, regardless of their historical implementers.

Given that the two groups of BSCs have different cultures and experiences, this is probably not simply a matter of bringing them together or getting them to join a single network. The work orders could include developing state of the art experience on selected topics of mutual interest as well as seminars and training exercises to share this experience with at least all USAID BSCs. This is consistent with the approach of shifting the focus toward developing the consulting industry rather than individual BSCs.

#### **11. Was the strategy of the program in developing the capacity of local Ukrainian staff to take over the program activities at the end of USAID funding achieved?**

The simple answer to this question is yes. The staffs of all the BSCs visited consisted of Ukrainians, with the exception of U.S. Peace Corps volunteers, and IFC advisors that were helping with the newer IFC BSCs.

One caveat is the need for additional assistance in order for the newer IFC BSCs to become sustainable. This includes additional training as well as technical assistance.

There are several other activities that have continued under NBN that continue to be the responsibility of U.S. consultants.

### **Conclusions and Recommendations on Question #11**

There is no recommendation for this Question but to repeat observations contained elsewhere in this report. USAID and IFC need to objectively assess the newer IFC BSCs and determine the best way to support them to the point of becoming financially viable.

#### **12. How did the BSCs address gender issues? If the BSC has recognized gender issues, what actions/steps were taken to integrate these considerations into their work-plan/activities/training, etc.?**

The integration of gender considerations into BSC activities and workplans varies from center to center although NBN has a more concrete plan than does IFC to address gender

issues. During the course of the review, several center directors stated that it was not necessary to target women entrepreneurs since women constitute a high number of clients to begin with. At the Zhytomir BSC, for example, the director stated that there was no specific program to target women because the center already reaches a large number of women clients. In the case of a recent IAS course, for example, 23 of the 25 trainees were women. Moreover, the IFC coordination center director stated that the IFC does not have any specific programs in place to target women or other disadvantaged groups.

Overall, women typically comprise a significant percentage of trainees. At the five IFC BSCs, women comprise 51% of all trainees. At the four NBN BSCs, women comprise only 38% of all trainees, although throughout the entire NBN network of nine BSCs women comprise approximately 55% of all trainees. By contrast, women usually make up a relatively small percentage of clients receiving non-training services such as consulting and information. Throughout the NBN network, women comprise only 19% of all clients receiving consulting services and 12.7% of all clients receiving information services. Unfortunately, data on the gender distribution of IFC clients receiving non-training services is unavailable but based on data from the NBN network, it is likely that the number of female IFC clients receiving non-training services is also lower than for training services. Furthermore, since medium and large enterprises are better equipped financially to pay for the more expensive services, such as consulting, further evidence exists that the percentage of women receiving non-training services is low, in part, because nearly 77% of medium and large enterprises are owned or operated by men (MSI 1999).

At NBN, a variety of activities target women entrepreneurs. Since March 1998, NBN has supported the development of business associations. Of the first 10 associations NBN supported, six were either headed by women or were focused on women's business issues. In addition, NBN has supported the development of the Business Associations Network in which women head 28 of the 113 associations (25%). Another NBN activity focusing on women entrepreneurs was a recent study tour—"Women and Entrepreneurship"—that took place in Poland. Participants were from a number of Ukrainian associations and government departments. The purpose of the tour was to allow Ukrainian women entrepreneurs to learn about the role of women in business and SMEs in Poland. The voucher program, another NBN-led activity, also was geared toward women entrepreneurs. Of the 350 participants during the pilot program in Lviv and Rivne, 63% were women. This percentage exceeded the program condition of serving participants in which women comprised at least 50%. In the second phase of the voucher program, women represented more than 60% of all participants.

In terms of management of the BSCs, three of the nine BSCs reviewed have women directors.

## **Conclusions and Recommendations on Question #12.**

According to a recent SME survey, 30% of all small businesses are owned or operated by women and 50% of all zero-employee (i.e., owner is not considered an employee) firms are owned or operated by women (MSI 1999). According to this same survey, small businesses (0-50 employees) account for 54% of total employment in Ukraine (MSI 1999). As has been mentioned already, the BSCs reviewed all want to achieve financial self-sustainability and in order to do so must provide services to those enterprises that can pay for them. Since many micro- and small-enterprises lack the financial resources that medium to large-enterprises have, these micro- and small-enterprises are being underserved by the BSCs. Furthermore, since a significant percentage of micro- and small-enterprises are women-owned or –operated, women entrepreneurs are also being underserved by the BSCs.

In order to target women entrepreneurs, it is recommended that the voucher program be modified in such a way so that micro- and small-enterprises, particularly those owned or operated by women, are given serious consideration to participate in the program. These same enterprises should also have the opportunity to use the voucher mechanism to receive non-training services. As the data reveals, women are being under-served in the provision of non-training services. One reason for this, as has been stated, is that women entrepreneurs typically own or operate firms which are micro or small in size and these firms usually do not have the financial resources to afford higher end services such as consulting. These higher end services would provide some of the skills and technical know-how that could significantly boost the commercial prospects of those micro and small enterprises, particularly those owned or operated by women, that are currently being under-served in the provision of non-training services. See the conclusions and recommendations section of the response to question #14 for further details on the how the selection process of the voucher program can be adjusted to target the needs of women entrepreneurs.

### **13. Have the BSCs developed linkages with other similar programs, such as those funded by the local government, USAID, and other donors? If yes, how have those linkages been made with the local governments and other donor assistance programs?**

Several of the BSCs have developed linkages with programs funded by the local government, primarily working with the Department of Employment. They also do pro-bono work for the LGUs as time permits. The Lviv BSC, a separate case, has extremely close ties to the local government and carries out innumerable tasks and activities for the Lviv city and oblast governments. In most cases, work with the local government is limited to only a few activities and those cases typically relate to cooperative efforts to assist with unemployment issues. It was difficult to determine whether the BSCs were paid for these services. The Lviv BSC, with a strong social program and close relationships with the LGU, did provide free services for a number of public programs. They sponsored programs to assist unemployed



women and unemployed youth. The center also set up a “Women for Women” Center at no charge.

None of the BSCs visited were co-funded by other donors. In Vinnitsa, TACIS had attempted to add its proposed BSC to the existing IFC BSC but this was unsuccessful. At least one of the NBN BSCs received initial support from the Eurasia Foundation and then moved on to direct support from the NBN program. It was clear that every BSC was willing to accept donor and government funding to carry out a broad range of conferences and seminars, training, consulting, and technical assistance activities. For example, the Kharkiv BSC had developed a large business information activity funded by the EBRD and had partnered with the local government and an industry group to develop a business information catalogue for Kharkiv. Likewise, Rivne stated that they had cooperation with a German partner, probably funded by the IPC, and the Lviv BSC had received donor funding from several sources for specific activities.

Regarding linkages to other USAID programs, several expressed a desire to establish some relationship with complementary USAID programs. In this regard, one BSC specifically mentioned a desire to obtain training from the Barents Group, the contractor implementing the Enterprise Restructuring Project. There are other USAID programs that fit within the BSCs interest, such as accounting reform, enterprise restructuring, agricultural land privatization, and agribusiness partnerships. The BIZPRO RFP stresses the need for other USAID activities to consider a buy-in for crosscutting work. This is a laudatory position for the Mission to support.

### **Conclusion and Recommendations on Question # 13**

There is a clear signal coming from the BSCs that they want more involvement with complementary activities and they also want to stay on the cutting edge of professional development by partaking in advanced training available from other USAID-funded projects. USAID is bringing into Ukraine considerable talent in all of the fields of market and fiscal reform. Here is an area of market reform where USAID can cross-train Ukrainian professionals so that they may do their job better and strengthen the network of business service providers throughout the country.

The recommendation is that the Mission make a concentrated effort to bring the USAID team together to expand cooperation with one another in developing the business service provider industry in Ukraine. Two places to begin this effort would be: 1) to assure that the International Business and Technical Consultants Inc. (IBTCI) activity on IAS reaches out to the BSCs to strengthen their IAS skills; and 2) for the training activities of the Barents restructuring project to be made available to the BSCs.

BIZPRO has a buy-in component in its activity design that could make cooperation easier for related activities. The recommendation is to seriously consider taking this next step.

**14. What have been the strengths and weaknesses of the pilot work order and voucher programs through the NBN Project? How could these mechanisms be improved?**

The first pilot voucher program and the pilot work order program were instituted as efforts to explore the possibilities to continue support for SME development and to expand the institutional support for the continued growth and maturation of this part of the economy. For each pilot we summarize the most common comments from the nine BSCs and then make some recommendations for the Mission's consideration in expanding these programs. The review team believes that both of the pilots have been successful and are appropriate for the next generation of SME assistance in Ukraine. The recommendations are directed toward future development and expansion of the two pilot programs. One observation that underlies the recommendations is that the evolution of support to vouchers and work orders is a move towards arms-length transactions with the BSCs. They will no longer be directly supported by USAID but there will be an ongoing contractual relationship for them to provide training and services. Consistency of quality of services and oversight will emerge as more complex issues in these new relationships, particularly as the program expands beyond the pilot phase.

**Summary Description of the Work Order Program**

Set up in May 1999, the goal of the program was to increase the flow of services to targeted groups of SME service providers as well as SMEs. The work order is a mechanism USAID can use to intervene on the supply side of the SME services market by engaging any service provider to perform an agreed set of services to targeted recipients ranging from other SME providers and business associations to entrepreneurs, students or SME employees, usually with a duration of one week to three months and a cost of less than \$25,000 USD. The objective of the initial five-month program was to test several approaches of identifying, developing, and implementing work orders to determine how best to facilitate the delivery of "sustainable" services to SMEs through a centralized funding and administrative base. The pilot work order program was administered by the NBN Project Coordination Center in Kiev in cooperation with the Mission.

The work orders supported the cost of providing the service with a reasonable profit to the service provider. In all cases, some kind of financial or in kind contribution was required from the service recipients in an attempt to reduce market distortions and foster a future market for the services.

Ideas for work order were generated by USAID and NBN, and solicited from the BSCs and business associations in the NBN network. In most cases, the work order was awarded to the party that designed or submitted the proposal (termed a "sole-source" award), although two competitive tenders were also conducted.

Impact measurement has been limited to scale, outreach, and anecdotal information that could not be obtained immediately. It would be interesting to look at firm level information

and follow up through longer-term intervals in future programs.

The program included 21 awards; two were for the original pilot voucher program. The total value of the pilot program was \$106,000 USD. Roughly 60% went to BSCs and 40% to associations and a few other service providers. The geographic distribution included seven sites in Ukraine and Moldova.

#### **Conclusions and Recommendations on the Pilot Work Order Program Question #14**

The pilot work order program was generally well received by the NBN BSCs and there was a lot of interest in the program from the IFC BSCs. The program provided a needed source of revenue for the BSCs to continue their work in targeted subjects and it helps the BSCs reach out to clients that might not be able to access their services now that most of their services are priced for full cost-recovery and profitability. This small contracts mechanism was useful in targeting assistance at desired purposes and provided a quick flow of donor resources to carry out stated goals.

Nevertheless, several BSCs questioned the process for selecting providers and said they didn't think that it was open and transparent. There were a lot of questions about how the subjects covered in the work orders were selected and by whom. Some of the BSCs felt the topics were selected to favor specific providers. For the unsolicited topics, two of the BSCs asked how choices were made and why they had not heard back on topics not selected. A number of BSCs wanted the program to stay open to the unsolicited proposals; they expressed the belief that they were in the best position to understand the needs of SMEs. Furthermore, there was considerable interest in seeing the range of activities expanded beyond those covered in the pilot. Examples include:

- institutional strengthening and skill building of BSCs and associations
- regional and rural development
- continuation of the small grants for small towns activity
- microenterprise development
- training the unemployed to go into business
- training for business women
- policy work
- and regional development efforts involving Poland and Romania

#### **NBN recommendations on the work order mechanism**

The NBN suggestions on program administration are basically on the mark:

- Provide clear and concise written guidelines for the implementation of the program
- Provide clear written guidelines on the format and substance for proposals
- Maintain a dual channel of unsolicited proposals and directed proposals
- Use competition as a mechanism for controlling costs
- Keep the contracting mechanism uncomplicated

### **Review Team recommendations**

- Maintain the broad goal of increasing the flow of services to targeted groups of business service providers and SMEs, but be clear on the specific targets of each work order so that the impacts can be readily tracked. (In the pilot program the Mission used the work orders for some of its own needs which do not necessarily track well at the goal level in terms of impacts.)
- Use pilot activities to explore new areas and assess impacts. Give the contractor greater latitude to expand activities under appropriate criteria once the pilots demonstrate the proper courses of action.
- Set up pre-qualification criteria for providers so that the program can expand beyond the USAID developed BSCs.
- Spot checks and client interviews may be sufficient quality control for known service providers but in expanding to new providers there will need to be good due diligence and monitoring procedures by the contractor. Since even the known providers will have different motivating factors than when they were USAID grantees additional procedures may be needed to assure that their quality of services is maintained as time passes.
- Institute a systematic response system for all unsolicited proposals.
- Contractor should develop means separate from providers to assess the needs of the SMEs and SME service providers.
- An impact evaluation should be scheduled fairly early in the program to assure that it is having the intended impacts on SMEs and SME service providers.

### **Summary Description of the Two Pilot Voucher Programs**

The goal of the voucher programs was to facilitate the delivery of training services to target SMEs in Lviv and Rivne in the first pilot, and in Kherson, Odessa, Vinnitsa, Khmelnytsky, Zaporizhya, Sumy and Dnipropetrovsk in the second pilot. In the second pilot the goal was to strengthen business associations and their members, and help associations to attract new members by providing them with an opportunity to offer qualified business training.

The objective was to use vouchers as a tool to encourage entrepreneurs to obtain training services by lowering their out of pocket costs while maintaining their freedom to choose the training they perceive as a priority. The vouchers are used to subsidize training offered by pre-selected business service providers.

The program administration is by selected associations.

#### **Deliverables in the first pilot were:**

- Training 200 SME employees in Lviv and 150 in Rivne with a specific gender target of at least 50% of the vouchers for women.
- Increase the number of members and improve image of the Association.
- Establish partner relations with the business services providers.
- Promote/market the program.

Voucher value: 100 UAH – in Lviv; 80 UAH – in Rivne  
Timeframe: June 1 till August 31, 1999

Deliverables in the second pilot: Training of 1,225 SME employees in seven additional cities. The target group was regional entrepreneurs with a focus on association members constituting not more than 40% of the participants (maximum of four from one company) and a maximum of two employees from companies that are not members of an association. There were not any gender targets but reporting participants by gender was required.

Voucher values: range from 80 UAH in Vinnitsa to 120 in Odessa.  
Timeframe for the second pilot program: November 10, 1999 to February 28, 2000

Due to a successful advertising campaign, high demand for business training was manifest during the very first weeks of implementation. The number of people willing to attend training at a decreased cost considerably exceeded the initially planned 200 vouchers for Lviv and 100 vouchers for Rivne. Therefore an additional 50 vouchers were allocated for the program in Rivne.

Program Statistics from the NBN report for the first pilot program. No statistics are available for the second pilot program, which ended in February 2000.

- 350 entrepreneurs were trained in the voucher program
- Women constituted 63% of participants
- The person training hours equaled 22,121 (number of people times the hours trained)
- Cost of one training hour for the NBN project, including the cost of program administrators' services and vouchers is \$ 0.45
- The most popular courses turned out to be computer training – 160 participants, and accounting training – 46 participants
- 82% of the participants were in the 20 – 40 years of age category

According to the participating associations, the voucher program implementation brought about many positive results:

1. The associations supervised practically all the stages of the program implementation. This attracted and concentrated the attention of all the program participants (entrepreneurs, directors of enterprises, training organizations) on the associations in question.
2. The associations obtained an opportunity to promote themselves. The advertising campaign for the voucher program automatically embedded the promotion of the associations' activity. In the process of applying for participation in the voucher program entrepreneurs obtained promotional/informational materials about the association and its core activities along with the regular package of application documents.

3. The implementation of the program has the number of business contacts between entrepreneurs and business associations. Many businessmen became clients of the associations.

#### Demand Analysis:

- Course duration seems to be an issue more in Lviv than Rivne. About 60% of the voucher holders in Lviv choose courses that were 40 hours or less, while in Rivne voucher holders had an almost even break out between the different duration programs. Rivne also demonstrated a difference between men and women, with women preferring longer courses, and men shorter courses.
- Computer courses dominated in Lviv, averaging close to 50% overall and for women and men. The numbers for computers would remain high even when remove the figures for computerized accounting courses. Rivne was more varied with a clear difference between men and women, with women focused on computers and men on management. Overall demand favored computer courses. After a substantial dropoff, the spread was even except for language training that had minimal demand.
- Cost did not seem to be an issue at the middle and lower end of the scale for either Rivne or Lviv. However, the most expensive courses were not highly demanded. Rivne showed, as a whole, a stronger preference for the least expensive grouping, but there was a more dramatic difference between the men and women. The women heavily favored the least expensive grouping and men heavily favored the third least expensive grouping of courses. It should be noted that the range of costs was much wider in Lviv than in Rivne, and indications are that most of women that participated were employees and not managers. It would make sense then that employees would be getting training at the more basic level, which would also tend to be less expensive.

In both cities the weighted-average subsidy was over 50% (58% and 64%), which translates to an average per course expenditure of 59 UAH in Rivne and 72 UAH in Lviv. These average subsidy numbers are not very meaningful given that the absolute subsidy varied from 28% to 91% depending on the course and provider.

#### **Conclusions and Recommendations on the Pilot Voucher Program Question #14**

In conclusion, the pilot voucher program had its strengths and weaknesses.

##### **Strengths of the Pilot Voucher Program**

- Provided targeted resources for training of SMEs
- Provided funds to support BSC and other training
- Cost-effective
- Gave means to associations to provide members services
- Served to strengthen associations by improving their image with members and non-

members alike

- Broadened the range of SME training providers accessed by USAID
- Expanded contacts between businesses and training providers
- Vouchers are a lot like cash and relatively easy to administer
- The program was popular with the clients, associations and providers

#### **Weaknesses of Pilot Voucher Program**

- Association selection process is critical to achieving the desired results. There are lots of associations with a variety institutional purposes. The selection process for the pilot seemed to have worked well but will need to be carefully monitored for program expansion.
- Participant selection was based on a lot of different methods by the various associations. It is not clear that beyond meeting the criteria specified in the pilot that they were distributed to individuals who needed the vouchers to access business skills training.
- The timing of the two pilots was unfortunate. The first during the summer holiday season and the second during the Christmas, New Year, and flu seasons.
- The fixed nominal level of subsidy caused the level of subsidy to vary a great deal depending on the costs of the program selected. The potential subsidy could vary between 28% and 91%, although in actuality the level of subsidy was only around 60% in the first pilot and 50% in the second. Nevertheless, on the surface it seems that the higher the proportion of subsidy the higher the chance for abuse.
- Selection of providers was carried out by the associations and NBN. All providers were screened and spot checks were made during the training. Trainees also provided written evaluations of the courses they completed.
- The BSCs normal pattern of client training activities was disrupted. The Lviv BSC reported that demand for training dropped off after the pilot phase because clients were anticipating the next voucher program.
- The purposes of associations and providers are not mutually exclusive. Several associations also provide training services and other business services similar to those of BSCs. There is more competition here than expected.
- By focusing only on training this tends to focus the BSCs on training services rather than a full range of business services.

#### **Recommendations for the Voucher Program**

- In many respects vouchers are a lot like cash to associations, clients, and providers. They can be used to subsidize or target the full range of services provided by the BSCs to SMEs. The design of the program should be expanded gradually to cover more of the business services needed by SMEs.
- The pilot approach should be used to design and test additional areas of business service delivery.
- Targeting: During the first pilot there was a gender focus that turned out to be unnecessary. Microenterprise and sole proprietors seem to be getting missed in the pilot. This focus should be explored.

- Training selection should concentrate on the business skills training needed by SMEs. Topics such as basic computer skills and English shouldn't be provided.
- Association selection (voucher distributor) is critical. Contractor will need to select carefully to avoid inappropriate selections. The process needs to be objective and transparent.
- The participant selection process needs to be developed further to assure that vouchers are going to clients who need them, and not underwriting the costs those who don't need the assistance.
- Quality control: The selection of training providers is important to assuring impact level results. The contractor will need to develop methods of assuring that qualified providers are selected and that qualified providers are not screened out for inappropriate reasons.
- A pre-qualification process may be an appropriate way to move, particularly if the program expands into more services. Systems for monitoring of quality and client feedback will be needed.
- The level of the subsidy provided by the vouchers deserves further consideration. At the level of 91% it is almost a grant and at 28% it is a small motivating factor. The larger the subsidy, the greater the chance for abuse. As the program looks into the provision of other services this will be somewhat more complicated and even more creative approaches may be required.
- An impact assessment should be planned to verify impact level results at a time when there will be sufficient experience to evaluate.
- The review team noted that the purposes of the first and second pilots were stated differently. In the first the focus was on the SMEs and in the second it seemed to be more on strengthening the associations. It seems to the review team that the focus should be on the SMEs first and the associations as a second order of business.



## **CROSS-CUTTING ISSUES**

### **Financial Services and Microfinance**

Across the board, BSCs expressed their concern regarding the lack of microcredit in Ukraine. Without some form of credit, all BSCs have stated that they would not target microenterprise opportunities because the microentrepreneur does not have an ability to pay. Consequently, at this time, all BSCs are targeting only the larger end of the SME market. This problem has a domino affect. It takes the largest potential group of entrepreneurs and the ones who can make a difference in Ukraine's reform to a market economy out of the sphere of influence. In turn, this takes away from the BSCs the most promising client base; the group that needs BSC support the most.

As spelled out in the BIZPRO activity design, a number of people have looked into the issue of microcredit and other lenders like the EBRD have had active implementation of projects trying to improve the availability of credit in Ukraine. This report will not reiterate the list of studies, reports, or groups working to bring the concept of microcredit to Ukraine. This information is already spelled out in BIZPRO and related documents. All reformers will agree that what is needed are new laws that will allow NGOs to lend money and collect interest payments as needed. Instead, this paper only passes on observations received from the BSCs visited. There are small efforts presently operating in country under current legislation, and until new laws are passed it would be wise to look at some of these existing microcredit arrangements for a short-term fix. This suggestion is not to replace efforts ongoing with the GOU and Parliament.

At the top of the list of organizations providing credit are credit unions. Opportunities need to be pursued with the unions, especially for rural non-farm activities. An interesting approach to micro lending is one relayed by the director of the NBN BSC in Donetsk. He is using what sounds like a legally acceptable scheme operated by a specialty agent established for the specific purpose of arranging this credit program. The credit agent solicits the collaboration of an insurance company and a bank together with the establishment of a group of suppliers willing to participate in the program. The client is required to put down a substantial down payment, presently set at 50% of the value of the goods, but that is better than no credit. Further the scheme uses the goods purchased as collateral and does not require the normal 150% of value as collateral normally required by banks and other lending sources.

The Counterpart Meta Center program in Lviv also provides microcredit using a bank on a fixed-fee basis to deliver credit and collect payments. In this case the bank is not at risk since it is not using its own funds. The cost of the Meta Center operations, compared to the loan portfolio size, is extremely high. When examining such an operation, efforts should be made to find ways of improving the administrative and overhead costs-to-loan portfolio ratio.

While not examined, it is understood that the BSC in Lugansk also has a microcredit scheme in operation that should be investigated.

All market reformers recognize that microcredit is a cornerstone to Ukraine's financial and economic development. However, this is a good point to reiterate that the BIZPRO activity has the ability to expand to the rural non-farm sector. It cannot be stressed enough that the lack of rural credit is an absolutely fundamental obstacle to the restructuring of a major part of the economy. Without a viable rural credit system, Ukraine will not improve its agricultural productivity and create the supporting non-farm enterprises necessary for agrarian success. The BSCs have the capability to support rural development and the BIZPRO activity should not lose sight of this fact.

### **Rural and Agricultural Sector**

Several BSCs expressed a great interest in expanding their work to include the rural community, focusing on non-farm businesses. They recognize that Ukraine needs to develop a significantly expanded interest in agrarian activities if the country is to progress. They believe that BSCs can play an important role in supporting non-farm business. Furthermore, the BSCs recognize that USAID has had a major role in implementing a program to provide agricultural land titles and therefore, should be interested in providing complimentary support. There is a major concern that the agrarian programs fall short of rural needs. As one person said, "It is like putting an explosive under a collective farm and after it blows up to hope the pieces all fall in an orderly fashion."

There is a clear need for non-farm support in business development. As several BSCs stated, the first task will be to bring an understanding to the rural community regarding their business opportunities. This opens up the door for information dissemination to bring awareness and assistance to the post-restructuring agricultural activities. It is a natural evolution after farm breakups to support private agribusiness development. The BSCs can play a crucial role in providing business support services to non-farm entrepreneurs. There is a need to train these entrepreneurs in business start-up operations, management, sales, and marketing. They also can become a link to suppliers and credit facilities.

No single recommendation can cover all aspects of rural business development. There is an abundance of material prepared by others on this subject. The leading recommendation is not to overlook this opportunity and to be ready to play a major role in this vital part of Ukraine's development. The work order can be used to create round table discussions/design groups to thoroughly scrutinize pertinent aspects of this subject. The work order process also can be used to conduct seminars in the rural areas as a start of their opportunity awareness. Once a strategy is developed, the BIZPRO activity can provide the framework to direct interventions using the voucher system.

### **Newbiznet Hotlines**

While not a specific task assignment under the SOW, the review team became aware of the NBN Hotlines during our initial visit to the DAI NBN office in Kiev. It was an easy task to

add visits to hotline operators during our field visits to the BSCs, so the review and assessment of hotlines were added to the team's agenda.

The first NBN hotline was setup in early November 1999 and eventually a total of 15 Hotlines were made operational before the end of December 1999. The hotlines provide free informational service to callers regarding taxation, regulatory policy, legislation, and other business related issues. These hotlines were established in selected associations, each of whom were provided with a computer, answering machine, Lotus software, and were trained in hotline operations. These computers were linked to a central server that housed a database of information and served as the central point for data accumulation. All of the hotline operations are periodically advertised through mass media, distribution of leaflets, mailing and other means, many times free of charge. As can be expected, the number of calls increases about the time of advertisement because the telephone number is readily available.

Based on NBN's initial hotline report, compiling data through January 31, 2000, one of the striking bits of information gleaned was that, on average, each hotline site only receives about four telephone calls a day. The concept of a business hotline sounded interesting but the real question was "Is this type of operation worthwhile considering that only four calls a day were received." As it turned out, because the operations started at different time periods, this average figure needed to be adjusted but still it showed only an average of seven calls a day. However, based on more recent data it should be noted that each hotline receives on average approximately 20-25 calls per day from 10-12 people.

Team visits to hotline operation centers proved that, in fact, many more calls were being received than indicated in the report. At the first hotline visited, while talking with the operator, two calls were received during a 10-minute period. It then became obvious that many more calls were being received than being reported. The primary reasons for these missed calls were: 1) the operator was too busy to write up each call, 2) the issue was outside their jurisdiction, 3) involved an insignificant issue, or 4) simply complaints, like "who was the jerk that wrote that law?" The review team believes that all of these calls were of value and should be recorded. Even the number or list of complaints provides a valuable insight into problems facing businesses.

Most of the business-related calls were questions on tax laws, legislation changes, how to start a business, or where to obtain necessary documents to create a business. A large number of calls had to be referred to another office or hotline because they were outside of the operator's expertise, particularly those calls dealing with land privatization issues. These calls were not usually recorded and only referred to a hotline in Kiev to address this issue.

One particular call that demonstrates the value of the hotline came from a person stating that they were penalized 18,000 UAH by the tax authorities. The operator was able to provide a legal citation to that person who took it to the tax authority. The tax authority later admitted their error and the case was immediately dismissed. There were many other similar stories that indicated the hotline was being used for serious business problems and in many cases the

operator was able to provide a professional reply or was able to refer the person to someone that could provide assistance.

The team found that the hotline was providing a valuable service but the team was unable to analyze the cost-benefit of this service. All associations providing the hotline service considered it of value to them and several of the BSCs said they would consider putting in a hotline. For both the BSCs and associations, the hotline service was viewed as a public relations operation that would serve the public while providing a contact mechanism for membership enrollment or an expanded client list.

More complete reporting can be accomplished by providing a simpler hard copy form to be utilized by the operator when they are too busy to make direct screen entries. The simple form could include check boxes for recording the minor calls. The list of check boxes could list, by category, those historical questions and calls (like complaints, thank you calls, etc.) that make up the volume of calls. The form could have a larger remarks box for taking notes and could serve as a reminder of what transpired when writing up the call at a later time.

A second recommendation would be to consider using other organizations in addition to associations for establishing hotlines. BSCs also should be considered and could be a means of assuring continuity of hotline services not requiring subsidies.

# ATTACHMENTS

## CONTACTS AND SCHEDULE

### A. Schedule for Richard Dangler, Richard Johnson and John Pennell (Pennell only Feb17-22 and 25 trips)

USAID/Kiev, Ukraine  
Business Development Division

#### I. Kiev, February 14 – March 6, 2000

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**February 14** Richard Johnson arrival, 1:10pm  
February 14 – 17, “Dnipro” Hotel

**February 15**  
10am Meeting with BDD  
Meeting with Judy Hansen

**February 16**  
10am Meeting with Joe Welsh, NewBizNet  
2pm Meeting with Max Yacoub, Richard Caproni, IFC

#### February 17-22 Trip\*: Zhytomir-Rivne-Lviv-Chernivtsi-Vinnitsa

##### Thursday, Feb 17

7:40am pick up Dick Dangler (Darvina Street)  
7:45am pick up John Pennell (Shovkovichnaya Street)  
7:50am pick up Dick Johnson (“Dnipro” Hotel)  
10am arrive Zhytomir IFC Business Center

shift to Rivne/NewBizNet (NBN)

#### A. Kiev-Zhytomir drive time: 1,5 hours

*Zhytomir-Rivne drive time: 2-2,5 hours*

##### Friday, Feb 18

9am mtg at Rivne Business Center  
at 4 or 5pm mtg at Lviv Business Center

meetings in Rivne/NBN, shift to Lviv/NBN  
17-18 night in Rivne, “Inturist” Hotel, 36 Kievskaya Str., tel.  
(0362) 26 7413  
*Rivne-Lviv drive time: 3 hours*

**Saturday, Feb 19** meetings in Lviv

18-19 night in Lviv  
 “Grand Hotel” Hotel at 13 Skovorody avenue, tel. (0322) 72 4042

**Sunday, Feb 20**  
 shift to Chernivtsi/IFC  
 19-20 night in Lviv  
*Lviv-Chernivtsi drive time: 4-5 hours*

**Monday, Feb 21**  
 9am mtg in Chernivtsi Business Center  
 meetings in Chernivtsi, shift to Vinnitsa  
 20-21 night in Chernivtsi  
 “Cheremosh” Hotel, 13a Komarova Str., tel. (03722) 4 84 00  
*Chernivtsi-Vinnitsa drive time: 4 hours*

**Tuesday, February 22** meetings in Vinnitsa, return to Kiev  
 21-22 night in Vinnitsa, Hotel ?  
*Vinnitsa-Kiev drive time: 4 hours*

**February 23-24** in Kiev, meetings  
 Richard Johnson stays at “Ukraine” Hotel

**Thursday, February 24**  
 2:40pm pick up for a meeting  
 3pm Mary Stock, Eurasia Foundation at Eurasia Office  
 26 Lesia Ukrainka Street, 5<sup>th</sup> floor, room 506

**Friday, February 25** **One-day trip to Chernigiv**  
*Kiev – Chernigiv drive time: 2–2,5 hours*

8:00am pick up Dick Dangler (Darvina Street), car # 10261  
 8:05am pick up John Pennell (Kruglouniversitetskaya street)  
 8:10am pick up Dick Johnson (“Ukraine” Hotel)

10:30am IFC Chernigiv Business Center

2pm Hotline. Entrepreneurs Guild of Chernigiv. 32,  
 Uritskogo St., 1st floor, (04622)-72789,45114, hotline 174200.  
 Contact persons: Shikhalyov Konstantin Director, Ovsyannik  
 Nikolay hotline operator

**Saturday, February 26**  
 12pm round table meeting with representatives of Business Associations

**February 27 - March 2 Trip\*: Dnipropetrovsk-Donetsk-Kharkiv (Johnson and Dangler only)**

Sunday, February 27

15:50pm flight Kiev-Dnipropetrovsk

16:55pm arrive Dnipropetrovsk

27-28 night in Dnipropetrovsk

“Slavutich” Hotel, Naberezhna Lenina, tel. (0562) 34 1144

**Monday, February 28**

9am Dnipropetrovsk IFC Business Center

12 pm Voucher/Hotline. Pridneprovskaya Association of Entrepreneurial Business Collaboration  
93 Karl Marx prospect, 4 floor, room 433  
tel: (056) 7447165, 7250929, hotline 744225  
Contact persons: Olexandr Malik, Director, Nebogatov Yevgen, hotline operator

shift to Donetsk/NBN

28-29 night in Donetsk

“Prague” Hotel, 101/103 Dubravnyaya Str., tel. (0623) 81 1166

*Dnipropetrovsk-Donetsk drive time: 3 hours*

**Tuesday, February 29**

9am Donetsk NBN Business Center

12 pm Hotline. Donetsk Oblast League of business and Professional Women

45 Artema St, 3 floor, tel (062) 3342043, 3343443, hotline 927080, 3351902. Contact persons: Golovaya Ludmilla, Director, Yasnitsaya Olga hotline operator

shift to Kharkiv

2/29-3/1 night in Kharkiv

“Kharkiv” Hotel, tel. (0572) 45 6325, 45 6133

*Donetsk-Kharkiv drive time: 3-4 hours*

**Wednesday, March 1**

9am Kharkiv NBN Business Center

12 pm Hotline. Ukrainian League of Companies with Foreign Capital  
2 Faninskyi Pereulok, tel.(0572) 141032, 141033, hotline 185348  
Contact persons: Revina Olga, Director, Sichnaya Liliya, hotline



operator

3/1-2 night in Kharkiv

Thursday, March 2

7:30am flight Kharkiv-Kiev  
9:00am arrive Kiev, Borispil Airport

Friday, March 3

9am meeting with Olin McGill, Deloitte & Touche (to discuss  
bankruptcy law)  
2-3pm Briefing for Director

Monday, March 6

10am meeting with Max Yacoub, IFC  
2pm meeting with Joe Welsh, NewBizNet  
Briefing for BDD

Tuesday, March 7

11:50am pick up Dick Johnson  
12:00pm pick up Dick Dangler  
  
14:10pm Richard Johnson depart for the U.S.  
15:20pm Richard Dangler depart for the U.S.

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#### Business Center Addresses

##### **Zhitomir IFC Business Center**

Director: Valeri Ivanov  
Address: 54, Vulitsa Pobedy  
Tel: (0412) 20-85-66, 25-83-36  
Email: ivaleo@zt.ukrtel.net

##### **Rivne NewBizNet Business Center**

Address: 16 Galytskogo Str., 5<sup>th</sup> floor  
tel. (0362) 26 3548  
Contact: Peter Vakhnyuk, BSC Director

##### **Lviv NewBizNet Business Center**

address: 7 Galytskaya Sqr.  
tel. (0322) 72 1349, 72 7562  
Contact: Olena Bey, BSC Director

**Chernivtsi IFC Business Center**

Director: Maria Porchuk

Address: 20, Vulitsa O.Kobilyanskaya

Tel: (0372) 58-55-72, 58-55-73, 51-37-85

Email: [consult@bizcenter.cv.ua](mailto:consult@bizcenter.cv.ua)

**Chernigiv IFC Business Center**

Director: Konstantin Ivanov

Address: 51, Vulitsa Lenina

Tel: (0462) 10-18-66, 10-18-67

Email: [ifc@mail.cn.ua](mailto:ifc@mail.cn.ua)

**Vinnitsa IFC Business Center**

25 Khmel'nitskoye Shosse, 7<sup>th</sup> floor

phone/fax: (0432) 43 78 87

**Dnipropetrovsk IFC Business Center**

Director: Alexander Kondrashov

Address: State Mining Academy

19, Prospekt Karla Marksa

Korpus 4

Tel: (0562) 47-45-98, 46-80-80

Email: [root@ifc.dp.ua](mailto:root@ifc.dp.ua)

**Donetsk NewBizNet Business Center**

Address: 27, Boulevard Shevchenko, 8-th floor

tel.: (0623) 32-36-81/82

Contact person - Alperovich Mikhail, BSC Director

**Kharkiv NewBizNet Business Center**

Address: 16 Prospekt Lenina

Tel. (0572) 40 9133, 40 9366

Contact: Alexander Dudka, BSC Director

## QUESTIONNAIRE

1. What is the goal of the BSC?
2. Is it structured as a profit or non-profit organization?
3. What is the service mix of the BSC (training, technical assistance, conferences, consulting, staffing, investment promotion, and, etc.) Follow up on the reasons for this!
4. What is the client mix (proprietors, small, or medium) of the BSC (including sex-disaggregated data.)
5. What types of industries do you work with?
6. What is the, staffing, structure and management culture of the BSC?
7. What is the breakdown of the sources of revenue or income?
8. How do donor priorities, subsidies, incentives affect the operations and goal of the center? What were the positive and negative impacts of these on the BSC operations?
9. How does this BSC determine the needs of SME enterprises (surveys or questionnaires)? How is this information used?
10. Are there any tradeoffs between the social and commercial goals of the center? Is the BSC focused more on service delivery or covering its costs of operation?
11. How can donors structure assistance to assist this BSC serve its clients better?
12. Are there specific structures, staffing, or goal orientation that would allow for better operations?
13. How does the regulatory environment -- taxes, licensing, legal status -- affect the BSC and its mission?
14. How does the business client market affect the operation of the center and their decision to target markets and services?
15. Does the center have ways of measuring the benefits of its activities to enterprises?
16. Does the BSC have competition? Is there an even playing field?
17. What is the status of the center in terms of achieving financial viability (e.g., revenues greater than costs less direct and indirect subsidies)?

18. What are the trends in terms of the likelihood and the timeframe for achieving financial viability? Does the BSC have a business plan for sustainable operations?
19. Does the BSC have a program for developing the capacity of local Ukrainian staff to take over the program activities at the end of USAID funding?
20. What are your thoughts about sustainability of the BSC and the priority to service the needs of micro and small enterprises?
21. Is there an opportunity to develop a stronger business support network that can encourage greater participation from all businesses in the formal business economy? Is there a network you work closely with? Is it useful to you? Have you heard about the Association of Associations? Are you a member?
22. Has the BSC established relationships with the local authorities and community members that may lead to increased local support to SMEs operating in the formal economy?
23. Has the BSC developed linkages with other similar programs, such as those funded by the local government, USAID, and other donors?
24. Has the BSC addressed gender issues (see Question #1)? If the BSC has recognized gender issues? What actions were taken to integrate these into activities?
25. NewBizNet: What are the strengths and weaknesses of the pilot work-order and voucher programs? How could these mechanisms be improved?
26. IFC: Have you heard about the vouchers and work-orders of NewBizNet? Is either one of these a good idea?

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